MBIZANA LOCAL MUNICIPALITY

Annual Financial Statements
for the year ended 30 June 2012

General Information

Mayor	Z. Busuku
Executive Committee	W.A. Hlangabezo
	E.F. Matekana
	D.D Mnisi
Councillors	N. Msokana
	F. Siramza
	S. Magini
	N. Giyama
	P. Siramza
	L. Makholosa
	N. Mjoli-Mbadlanyana
	S.M Faku
	N.N Mhlelembana
	Z.W Mqokolwana
	N. Mafuya
	N.E Cengimbo
	A.R Ngubo
	H.M Mpukwana
	N. Stata
	P. Mfingwana
	N. Kwelemtini
	F. Muyelwa
	L. Nojila
	B. Matshoba
	V.T Mbele
	S. Godi
	P. Booi
	K. Ndzinya
	Z. Nhiya
	Z. Mhlwazi
	N. Madikizela
	N. Mbewu
	L.G Mcambalala
	S.M Thukwana
	A. Maquthu
	R.T Nkomo
	M.H Nonqane
	T. Maphasa
	W.M Diya
	M. Xesibe
	P.V Ndovela
	N. Hlebo
	N.B. Mteki
	W.A Hlangabezo
	A.I Guqaza
	J.M Dimane
	B.A Jabulane
	N. Sibutha
	T. Faku
	N.S Ngonini

General Information

	T.H Kango J.N Madikizela M.J Ndesi N.H Magqabi N. Madikizela I.M Sabuka N. Sikibi L.A Njomi R.N Madikizela F.P Mjoli L.T Somadlangathi Z.P Ndebele
Grading of local authority	Grade 3
Chief Finance Officer (CFO)	N. Boti
Accounting Officer	S. Thobela
Registered office	51 Main Street Bizana 4800
Business address	51 Main Street Bizana 4800
Postal address	PO Box 12 Bizana 4800
Bankers	First National Bank
Magisterial District	Alfred Nzo District

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year ended 30 June 2012 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The annual financial statements set out on page 5 to 40 , which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2012 and were signed on its behalf by:

S. Thobela
Municipal Manager

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Cash and cash equivalents	2	77 032 424	45 833 404
Consumer debtors	3	8 861 196	9 723 078
Other receivables from non-exchange transactions	4	1 386 255	3 907 028
Inventories	5	91 432	111 725
Receivables from exchange transactions	7	210 039	210 034
VAT receivable	6	1 583 767	4 293 724
Operating lease asset		1 757 114	1 735 129
		90 922 227	**65 814 122**
Non Current Assets			
Investment property	9	8 001 000	8 001 000
Property, plant and equipment	8	259 402 884	232 742 664
		267 403 884	**240 743 664**
Non-Current Assets		267 403 884	240 743 664
Current Assets		90 922 227	65 814 122
Non-current assets held for sale (and) (assets of disposal groups)		-	-
Total Assets		**358 326 111**	**306 557 786**
Liabilities			
Current Liabilities			
Payables from exchange transactions	10	5 324 648	7 127 425
Consumer deposits	11	325 769	315 269
Unspent conditional grants and receipts	12	5 173 929	8 664 601
Provisions	13	4 506 127	2 965 381
Bank overdraft	2	-	534 059
		15 330 473	**19 606 735**
Non Current Liabilities		-	-
Current Liabilities		15 330 473	19 606 735
Liabilities of disposal groups		-	-
Total Liabilities		**15 330 473**	**19 606 735**
Assets		358 326 111	306 557 786
Liabilities		(15 330 473)	(19 606 735)
Net Assets		**342 995 638**	**286 951 051**
Net Assets			
Accumulated surplus		342 995 638	286 951 051

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Property rates	14	6 276 026	6 965 250
Service charges	15	13 802 077	9 291 538
Rental of facilities and equipment	16	1 804 265	1 037 192
Interest received - investment	17	3 389 009	2 340 863
Interest received		64 356	214 144
Fines		277 010	166 660
Licences and permits		961 468	951 653
Government grants & subsidies	18	144 046 960	111 628 234
Recoveries		37 487	11 306
Other income	19	1 763 239	1 480 221
Total Revenue		**172 421 897**	**134 087 061**
Expenditure			
Personnel	20	(33 114 465)	(28 817 156)
Remuneration of councillors	21	(14 075 069)	(11 687 254)
Depreciation and amortisation	22	(17 721 415)	(32 814 767)
Debt impairment expense		(1 800 522)	(90 669)
Repairs and maintenance		(3 958 108)	(3 066 565)
Bulk purchases	23	(13 499 898)	(9 491 394)
Grants and subsidies paid	24	(13 597 971)	(12 430 793)
General Expenses	25	(27 304 015)	(20 379 442)
Total Expenditure		**(125 071 463)**	**(118 778 040)**
Revenue		172 421 897	134 087 061
Expenditure		(125 071 463)	(118 778 040)
Other		-	-
(Deficit) / surplus for the year		**47 350 434**	**15 309 021**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2010	**271 642 030**	**271 642 030**
Changes in net assets		
Surplus for the year	15 309 021	15 309 021
Total changes	15 309 021	15 309 021
Opening balance as previously reported	287 041 227	287 041 227
Adjustments		
Correction of errors	8 603 927	8 603 927
Balance at 01 July 2011 as restated	**295 645 204**	**295 645 204**
Changes in net assets		
Surplus for the year	47 350 434	47 350 434
Total changes	47 350 434	47 350 434
Balance at 30 June 2012	**342 995 638**	**342 995 638**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Sale of goods and services		168 818 532	125 017 786
Interest on investments		3 389 009	2 340 863
Interest received		64 356	214 144
		172 271 897	127 572 793
Payments			
Suppliers and Employee costs		(105 551 191)	(100 181 228)
Total receipts		172 271 897	127 572 793
Total payments		(105 551 191)	(100 181 228)
Net cash flows from operating activities	26	**76 114 716**	**38 430 523**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(44 381 637)	(22 067 232)
Net increase/(decrease) in cash and cash equivalents		**31 733 079**	**16 363 291**
Cash and cash equivalents at the beginning of the year		45 299 345	28 936 054
Cash and cash equivalents at the end of the year	2	**77 032 424**	**45 299 345**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

Accounting Policies

1.1 Transfer of functions between entities under common control (continued)

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Accounting Policies

1.3 Property, plant and equipment (continued)

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	undefined
Buildings	30 years
Furniture and fixtures	7 - 10 years
Motor vehicles	3 - 7 years
Infrastructure	15 -30 years
Community	15 - 50 years

Accounting Policies

1.3 Property, plant and equipment (continued)

Other property, plant and equipment	15 - 30 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

Accounting Policies

1.5 Intangible assets

An asset is identified as an intangible asset when it:
- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3 years

1.6 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:
- Financial assets at fair value through surplus or deficit - held for trading
- Financial assets at fair value through surplus or deficit - designated
- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities at fair value through surplus or deficit - held for trading
- Financial liabilities at fair value through surplus or deficit - designated
- Financial liabilities measured at amortised cost

Accounting Policies

1.6 Financial instruments (continued)

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit dividends and interest.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in surplus or deficit, while translation differences on non-monetary items are recognised in equity.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Accounting Policies

1.6 Financial instruments (continued)

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality’s accounting policy for borrowing costs.

Accounting Policies

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.9 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

1.10 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

1.11 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Accounting Policies

1.11 Provisions and contingencies (continued)

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 38.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.9.

If the related asset is measured using the revaluation model:

Accounting Policies

1.11 Provisions and contingencies (continued)

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

1.13 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and

Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

1.14 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.15 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.16 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.17 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

Accounting Policies

1.17 Irregular expenditure (continued)

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.18 Presentation of currency

These annual financial statements are presented in South African Rand.

1.19 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.20 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Figures in Rand	2012	2011

2. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	142	2 022
Bank balances	3 748 342	-
Short-term deposits	71 496 607	44 276 084
Other bank balances	1 787 333	1 555 298
Bank overdraft	-	(534 059)
	77 032 424	**45 299 345**
Current assets	77 032 424	45 833 404
Current liabilities	-	(534 059)
	77 032 424	**45 299 345**

The municipality had the following bank accounts

Account number	Bank statement balances			Cash book balances		
	30 June 2012	30 June 2011	30 June 2010	30 June 2012	30 June 2011	30 June 2010
51704922107	5 033 172	5 649 484	1 348 863	3 756 776	(534 049)	(2 614 935)
61170003788	328 603	362 025	540 624	328 603	113 901	540 624
51701039997	1 458 729	1 441 397	1 327 125	1 458 729	1 441 397	1 327 125
Total	**6 820 504**	**7 452 906**	**3 216 612**	**5 544 108**	**1 021 249**	**(747 186)**

3. Consumer debtors

Gross balances		
Revenue from non exchange transactions		
Rates	3 103 917	4 108 865
Revenue from exchange transactions		
Electricity, Refuse and Other	10 589 519	8 645 931
	13 693 436	**12 754 796**
Less: Provision for debt impairment		
Debtors	(4 832 240)	(3 031 718)
Net balance		
Rates	3 103 917	4 108 865
Electricity, Refuse and other	10 589 519	8 645 931
Impairment	(4 832 240)	(3 031 718)
	8 861 196	**9 723 078**

Summary of debtors according to Service types

Rates		
Current (0 -30 days)	1 432 240	1 235 121
31 - 60 days	597 866	496 598
61 - 90 days	433 854	429 803
91 - 120 days	412 754	3 420 266
121 - 365 days	10 816 722	7 173 008
Less: Impairment	(4 832 240)	(3 031 718)
	8 861 196	**9 723 078**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

3. Consumer debtors (continued)

Reconciliation of debt impairment provision

Balance at beginning of the year	(3 031 718)	(3 848 674)
Contributions to provision	(1 800 522)	-
Reversal of provision	-	816 956
	(4 832 240)	**(3 031 718)**

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates.

In determining the recoverability of consumer debtor the municipality considers any change in the credit quality of the consumer debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the consumer base being large and unrelated. Accordingly, management believe that there is no further credit provision required in excess of the Provision for Impairment.

4. Other receivables from non-exchange transactions

Payroll debtors	32 805	32 805
Other debtors	1 353 450	3 874 223
	1 386 255	**3 907 028**

Credit quality of other receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates.

5. Inventories

Consumables stores	91 432	111 725

6. VAT receivable

VAT	1 583 767	4 293 724

7. Receivables from exchange transactions

Operating lease receivables (if immaterial)	9	4
Land Sales	210 030	210 030
	210 039	**210 034**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

8. Property, plant and equipment

	2012			2011		
	Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	32 297 190	-	32 297 190	32 245 690	-	32 245 690
Buildings	48 314 713	(9 697 165)	38 617 548	48 314 713	(7 062 401)	41 252 312
Furniture and fixtures	12 436 028	(4 170 966)	8 265 062	5 564 127	(3 055 167)	2 508 960
Motor vehicles	5 939 301	(2 672 464)	3 266 837	3 976 313	(1 437 317)	2 538 996
Infrastructure	246 683 026	(70 325 368)	176 357 658	211 464 511	(57 613 699)	153 850 812
Community	340 204	(30 061)	310 143	155 873	(23 322)	132 551
Other property, plant and equipment	308 141	(19 695)	288 446	215 740	(2 397)	213 343
Total	**346 318 603**	**(86 915 719)**	**259 402 884**	**301 936 967**	**(69 194 303)**	**232 742 664**

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Depreciation	Total
Land	32 245 690	51 500	-	32 297 190
Buildings	41 252 312	-	(2 634 764)	38 617 548
Furniture and fixtures	2 508 960	6 871 901	(1 115 799)	8 265 062
Motor vehicles	2 538 996	1 962 988	(1 235 147)	3 266 837
Infrastructure	153 850 812	35 218 515	(12 711 669)	176 357 658
Community	132 551	184 332	(6 740)	310 143
Housing	213 343	92 401	(17 298)	288 446
	232 742 664	**44 381 637**	**(17 721 417)**	**259 402 884**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Depreciation	Impairment loss	Total
Land	32 245 690	-	-	-	32 245 690
Buildings	40 771 919	3 827 100	(3 256 038)	(90 669)	41 252 312
Furniture and fixtures	2 850 253	855 057	(1 196 350)	-	2 508 960
Motor vehicles	3 060 824	-	(521 828)	-	2 538 996
Infrastructure	164 328 299	17 169 335	(27 646 822)	-	153 850 812
Community	139 038	-	(6 487)	-	132 551
Other property, plant and equipment	-	215 740	(2 397)	-	213 343
	243 396 023	**22 067 232**	**(32 629 922)**	**(90 669)**	**232 742 664**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

9. Investment property

	2012			2011		
	Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	8 001 000	-	8 001 000	8 001 000	-	8 001 000

Reconciliation of investment property - 2012

	Opening balance	Total
Investment property	8 001 000	8 001 000

Reconciliation of investment property - 2011

	Opening balance	Total
Investment property	8 001 000	8 001 000

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

Revaluations were performed by an independent valuer, Mimosa Properties. Mimosa Properties are not connected to the municipality and have 8 years of experience in location and category of the investment property being valued.

Amounts recognised in surplus and deficit for the year.

10. Payables from exchange transactions

Trade payables	1 522 242	1 196 013
Payments received in advanced	227 380	12 686
Other payables	1 121 782	3 465 482
Retension	2 453 244	2 453 244
	5 324 648	**7 127 425**

The average credit period on purchases is 30 days from the receipt of the invoice (as determined by the MFMA). No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has financial risk policies in place to ensure that all payables are paid within the credit time frame.

Management of the municipality is of the opinion that the carrying value of accounts payable approximate their fair values.

11. Consumer deposits

Electricity	325 769	315 269

Consumer deposits are paid by consumers on application for new electricity connections. The deposits are repaid when the electricity connections are terminated. In cases where consumers default on their accounts, Council can utilise the deposit as payment for the outstanding account.

Management of the municipality is of the opinion that the carrying value of consumer deposits approximate their fair values.

Figures in Rand	2012	2011

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	2 951 167	5 773 321
Municipal Systems Improvement Grant	-	205 826
Extension 2 Residents	33 802	33 802
Pilot Housing Fund	391 620	391 620
Fraud Prevention Plan	160 280	160 280
Baleni Capentry Grant	598 788	645 520
Municipal Support Grant	275 148	275 148
IEC Grant	263 124	1 179 084
LED : Economic Masterplan	500 000	-
	5 173 929	**8 664 601**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 18 for reconciliation of grants from National/Provincial Government.

13. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Environmental rehabilitation	841 390	486 659	1 328 049
Workmen's compensation	-	482 164	482 164
Staff Leave provision	2 123 991	571 923	2 695 914
	2 965 381	**1 540 746**	**4 506 127**

Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Environmental rehabilitation	755 425	85 965	841 390
Staff Leave Provision	1 542 224	581 767	2 123 991
	2 297 649	**667 732**	**2 965 381**

14. Property rates

Rates received

Residential	434 053	6 965 250
Commercial	1 773 558	-
State	1 565 380	-
Phase 1 Properties	2 503 035	-
	6 276 026	**6 965 250**

During the current financial period, a resolution was passed by council condoning the write offs of the debts for public works rural properties and rural business. This motion was passed on the 2nd of May 2012. This has resulted in the decrease in rates.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

15. Service charges

Service charges	136 178	186 266
Sale of electricity	12 786 403	8 340 025
Refuse removal	879 496	765 247
	13 802 077	**9 291 538**

16. Rental of facilities and equipment

Premises		
Premises	1 738 670	939 101
Venue hire	39 328	84 620
Billboards and advertising	26 267	13 471
	1 804 265	**1 037 192**

17. Interest revenue

Interest revenue		
Bank	3 389 009	2 340 863

Total interest income, is interest earned from the deposits in the various call accounts.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

18. Government grants and subsidies

Equitable share	98 860 000	75 758 278
Municipal Infrastructure Grant	30 400 012	22 197 192
Municipal Systems Improvement Grant	995 826	1 038 530
Financial Management Grant	1 450 000	1 591 880
IDP Grant	150 000	445 428
LED Grant	207 982	476 010
IEC Grant	915 960	120 916
Integrated Electrification Grant	11 000 000	10 000 000
LED Capacity Building Grant	67 180	-
	144 046 960	**111 628 234**

Municipal Infrastructure Grant

Balance unspent at beginning of year	5 773 321	13 488 514
Current-year receipts	29 445 000	14 482 000
Conditions met - transferred to revenue	(30 400 012)	(22 197 193)
Other	(1 867 142)	-
	2 951 167	**5 773 321**

Conditions still to be met - remain liabilities (see note 12)

Municipal Systems Improvement Grant

Balance unspent at beginning of year	205 826	494 356
Current-year receipts	790 000	750 000
Conditions met - transferred to revenue	(995 826)	(1 038 530)
	-	**205 826**

Conditions still to be met - remain liabilities (see note 12)

Extension 2 Residential

Balance unspent at beginning of year	33 802	33 802
Conditions met - transferred to revenue	-	-
	33 802	**33 802**

Conditions still to be met - remain liabilities (see note 12)

Pilot Housing Fund

Balance unspent at beginning of year	391 620	78 338
Current-year receipts	-	313 282
Conditions met - transferred to revenue	-	-
	391 620	**391 620**

Conditions still to be met - remain liabilities (see note 12)

Financial Management Grant

Balance unspent at beginning of year	-	391 880
Current-year receipts	1 450 000	1 200 000
Conditions met - transferred to revenue	(1 450 000)	(1 591 880)
	-	**-**

Figures in Rand	2012	2011

18. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 12)

Fraud Prevention Plan

Balance unspent at beginning of year	160 280	160 280

Conditions still to be met - remain liabilities (see note 12)

IDP Grant

Current-year receipts	150 000	-
Conditions met - transferred to revenue	(150 000)	-
	-	**-**

Conditions still to be met - remain liabilities (see note 12)

Provide explanations of conditions still to be met and other relevant information

LED Grant

Balance unspent at beginning of year	645 520	-
Current-year receipts	161 250	1 121 530
Conditions met - transferred to revenue	(207 982)	(476 010)
	598 788	**645 520**

Conditions still to be met - remain liabilities (see note 12)

Municipal support Grant

Balance unspent at beginning of year	275 148	275 148

Conditions still to be met - remain liabilities (see note 12)

Electricity Grant

Current-year receipts	11 000 000	-
Conditions met - transferred to revenue	(11 000 000)	-
	-	**-**

Conditions still to be met - remain liabilities (see note 12)

Provide explanations of conditions still to be met and other relevant information

IEC Grant

Balance unspent at beginning of year	1 179 084	-
Current-year receipts	-	1 300 000
Conditions met - transferred to revenue	(915 960)	(120 916)
	263 124	**1 179 084**

Conditions still to be met - remain liabilities (see note 12).

Figures in Rand	2012	2011

19. Other income

Other income	1 763 239	1 480 221

20. Employee related costs

Basic	24 400 268	22 928 452
Bonus	1 385 818	1 093 536
Medical aid - company contributions	1 092 797	983 048
UIF	185 274	166 582
WCA	340 001	488 986
SDL	271 279	198 204
SALGA Levies	355 584	367 704
Leave pay provision charge	909 880	190 000
Post-employment benefits - Pension - Defined contribution plan	1 753 631	1 548 977
Travel, motor car, accommodation, subsistence and other allowances	1 004 088	363 647
Overtime payments	395 382	150 609
Long-service awards	46 250	-
Housing benefits and allowances	282 090	225 213
Workmen's Compensation	482 164	-
Allowances	201 850	105 708
Bargaining Council	8 109	6 490
	33 114 465	**28 817 156**

Remuneration of municipal manager

Annual Remuneration	806 887	854 225
Travel, motor vehicle, accomodation subsistance and other allowances	19 706	14 400
	826 593	**868 625**

Remuneration of chief finance officer

Annual Remuneration	840 000	696 977
Other	9 600	9 600
	849 600	**706 577**

Director-Planning and Infrastructure

Annual Remuneration	840 000	700 194
Travel, motor vehicle, accomodation subsistance and other allowances	9 600	9 600
	849 600	**709 794**

Director-Corporate Services

Annual Remuneration	758 012	690 020
Travel, motor vehicle, accomodation subsistance and other allowances	8 800	9 600
	766 812	**699 620**

Director-Community Services

Annual Remuneration	840 000	694 817
Travel, motor vehicle, accomodation subsistance and other allowances	9 600	9 600
	849 600	**704 417**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

21. Remuneration of councillors

Mayor	611 895	433 366
Mayoral Committee Members	2 478 177	1 526 273
Speaker	489 516	198 964
Councillors	10 435 836	9 528 651
Insurance - UIF	59 645	-
	14 075 069	**11 687 254**

In-kind benefits

The Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor has use of a Council owned vehicle for official duties. The Mayor has one full-time bodyguard.

During the current year. the council members increased from fifty to sixty one members. this has resulted in the increase in council expenses

22. Depreciation and amortisation

Property, plant and equipment	17 721 415	32 814 767

23. Bulk purchases

Electricity	13 499 898	9 491 394

Bulk purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resell to the consumers. Electricity is purchased from Eskom.

24. Grants and subsidies paid

Other subsidies		
MIG Projects	-	(938 824)
Municipal System Improvement Grant	984 740	912 775
Financial Management Grant	1 318 469	1 448 269
IDP IGR & Communications	612 219	633 489
LED Ptojects Grant	481 961	441 154
Planning Rural housing	-	474 781
Intergrated Electrification	9 341 883	9 341 883
R&M IEC Preparations	792 474	117 266
LED Capacity Building Grants	66 225	-
	13 597 971	**12 430 793**
Grants paid to ME's	-	-
Other subsidies	13 597 971	12 430 793
	13 597 971	**12 430 793**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

25. General expenses

Accounting Fees	133 625	189 813
Advertising	257 473	225 116
Auditors remuneration	3 560 306	2 145 380
Bank charges	168 591	146 361
Books	122 592	195 175
Cemetery	174 850	146 850
Cleaning	77 662	48 173
Community Involvement	337 854	1 358 232
Consulting and professional fees	2 566 008	2 444 926
Entertainment	495 430	485 691
Environmental Projects	547 824	645 623
Payroll Expenses	122 892	-
Free Basic Services	695 284	836 764
Fuel and oil	1 138 162	760 310
HIV/AIDS Programmes	252 997	256 174
IT expenses	855 346	432 321
Institutional Support	1 435 185	1 121 622
Insurance	420 356	342 413
Legal Fees	260 420	559 608
Licencing Fees	231 892	34 415
Local Economic Development Projects	-	251 586
Mayor's Special Programmes	301 955	378 867
Membership Fees	29 737	9 948
Other Expenses	2 304 637	1 744 931
Printing and stationery	569 357	354 526
Protective clothing	274 912	256 041
Public Participation	196 102	41 185
Security (Guarding of municipal property)	914 203	440 856
Stocks and Material	85 063	41 435
Telephone and fax	1 835 557	610 823
Tourism development	109 856	170 956
Travelling and Accomodation	3 950 685	2 465 999
Ward Committee Fees	2 877 202	1 237 322
	27 304 015	**20 379 442**

26. Cash generated from operations

Surplus	47 350 434	15 309 021
Adjustments for:		
Depreciation and amortisation	17 721 415	32 814 767
Impairment deficit	1 800 522	90 669
Movements in operating lease assets and accruals	(21 985)	(55 729)
Movements in provisions	1 540 746	85 965
Increase in staff leave	-	581 767
Provision for doubtful debts	-	(816 956)
Prior year errors	8 694 150	(4 440 970)
Changes in working capital:		
Inventories	20 293	33 549
Receivables from exchange transactions	(1 800 522)	-
Other receivables from non-exchange transactions	2 520 773	-
Consumer debtors	861 882	(5 717 973)
Payables from exchange transactions	(1 802 777)	2 970 236
VAT	2 709 957	3 826 394
Unspent conditional grants and receipts	(3 490 672)	(6 257 717)
Consumer deposits	10 500	7 500
	76 114 716	**38 430 523**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

27. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	33 518 419	30 736 754

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

28. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Audit fees

Current year fee	2 126 933	2 145 380
Amount paid - current year	(2 126 933)	(2 145 380)
	-	-

PAYE and UIF

Current year fee	3 122 882	5 232 012
Amount paid - current year	(3 122 882)	(5 232 012)
	-	-

Pension and Medical Aid Deductions

Current year fee	3 643 534	3 233 804
Amount paid - current year	(3 643 534)	(3 233 804)
	-	-

VAT

VAT receivable	1 583 767	4 293 724

Councillors' arrear consumer accounts

No Councillors' accounts were in arrears as at 30 June 2012.

29. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2012

	Loans and receivables	Total
Consumer debtors	8 861 196	8 861 196
Other receivables from non-exchange transactions	1 386 255	1 386 255
Other bank balances	1 787 333	1 787 333
Cash on hand	142	142
	12 034 926	**12 034 926**

2011

Figures in Rand	2012	2011

29. Financial assets by category (continued)

	Loans and receivables	Total
Consumer debtors	9 723 078	9 723 078
Other receivables from non-exchange transactions	3 907 028	3 907 028
Other bank balances	1 555 298	1 555 298
Cash on hand	2 022	2 022
	15 187 426	**15 187 426**

30. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2012

	Financial liabilities at amortised cost	Total
Trade and other payables	5 324 648	5 324 648

2011

	Financial liabilities at amortised cost	Total
Trade and other payables	7 127 425	7 127 425
Bank overdraft	534 059	534 059
Consumer deposits	315 269	315 269
	7 976 753	**7 976 753**

31. Comparative figures

Certain comparative figures have been reclassified. Refer to note 33 for more details.

32. Employee benefit obligations

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees [or specify number of employees covered]. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

Figures in Rand	2012	2011

33. Prior period errors

The correction of the error(s) results in adjustments as follows:

.1. Accumulated surplus / (deficit)

Opening balance -	(287 041 277)
Journal on Bank reconciliations	617 710
Staff Leave provision incorrectly calculated	(17 519)
Debtors payments recorded as sundry	1 850 859
Incorrect classification	875
Hall hire refunds incorrectly recorded	30 000
VAT portion of grants incorrectly accounted for	(1 867 143)
Profit incorrectly accounted for	(5 719 905)
Closing balance at the end of the year - 30 June 2011	***(292 146 400)***

.2. Cash and cash equivalents

Opening balance as previously reported	45 833 404
Corrections	(698 334)
Closing balance at the end of the year - 30 June 2011	***45 135 070***

.3. Trade and other receivables from exchange transactions

Opening balance - as previously reported	9 723 078
Corrections	(1 850 859)
Closing balance at the end of the year - 30 June 2011	**7 872 219**

4. Staff Leave Provision

Opening balance - as previously reported -	2 123 991
Corrections	17 519
Closing balance at the end of the year - 30 June 2011	***2 141 510***

.6. Trade and other payables from exchange transactions

Opening balance - as previously reported	(9 161 186)
Corrections	(648 568)
Closing balance at the end of the year - 30 June 2011	***(* 9 809 754**)

.7. Current portion of unspent conditional grants and receipts

Opening balance	(8 664 601)
Corrections	(1 867 143)
Closing balance at the end of the year - 30 June 2011	***10 531 744***

.8. Rental of facilities and equipment

Opening balance - as previously reported	(1 037 192)
Corrections	(30 000)
Closing balance at the end of the year - 30 June 2011	***(1 067 192)***

.9. Current portion of unspent conditional grants and receipts

Opening balance - as previously reported	(8 664 601)

Figures in Rand	2012	2011

33. Prior period errors (continued)

Corrections	1 867 143
Closing balance at the end of the year - 30 June 2011	***(6 797 458)***

.10. General expenses

Opening balance - as previously reported	20 380 608
Corrections	(815)
Closing balance at the end of the year - 30 June 2011	***(20 397 793)***

34. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for member and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the municipality monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

The gearing ratio at 2012 and 2011 respectively were as follows:

Cash and cash equivalents	2	77 032 424	45 299 345
Net debt		(77 032 424)	(45 299 345)
Total equity		342 995 638	287 041 277
Total capital		**265 963 214**	**241 741 932**

Financial risk management

The municipality’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality’s income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

34. Risk management (continued)

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

35. Going concern

We draw attention to the fact that at 30 June 2012, the municipality had accumulated surplus of R 342 995 638 and that the municipality's total assets exceed its liabilitiess by R 342 995 638.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

36. Events after the reporting date

Subsequent to 30 June 2012, the Fraud Prevention plan grant was fully utilised.

37. New standards and interpretations

37.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment reportingn and Similar Liabilities	01 April 2012	
• GRAP 23: Revenue from Non-exchange transactions	01 April 2012	
• GRAP 24: Presentation of Budget Information in the financial statements	01 April 2012	
• GRAP 103: Heritage assets	01 April 2012	
• GRAP 21: Impairment of non- cash generating assets	01 April 2012	
• GRAP 26: Impairment of cash generating assets	01 April 2012	

37.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2012 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	01 April 2012	
• GRAP 23: Revenue from Non-exchange Transactions	01 April 2012	
• GRAP 24: Presentation of Budget Information in the Financial Statements	01 April 2012	
• GRAP 103: Heritage Assets	01 April 2012	
• GRAP 21: Impairment of non-cash-generating assets	01 April 2012	
• GRAP 26: Impairment of cash-generating assets	01 April 2012	
• GRAP 25: Employee benefits	01 April 2013	
• GRAP 104: Financial Instruments	01 April 2012	
• IGRAP 7: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	01 April 2013	
• GRAP 106: Transfers of functions between entities not under common control	01 April 2014	
• GRAP 107: Mergers	01 April 2014	
• GRAP 20: Related parties	01 April 2013	

Figures in Rand	2012	2011

38. Contingencies

There are currently 4 cases against the municipality to the amount of R311828.18. These cases will only be finalised in the next financial year.

Contingent assets

Subsequent to the disciplinary hearing in respect of the fruitless and wasteful expenditure referred to in Note 43, civil proceedings have commenced against the employees concerned to recover an amount of R222 275 -. According to Council's legal advisors, it is probable that the proceedings will result in the recovery of the full amount but this recovery is virtually certain.

39. Irregular expenditure

Irregular Expenditure - current year		222 275	936 778

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Money stolen	Criminal proceedings	222 275

40. Operating Leases - as lessor (income)

Minimum lease payments due		
- within one year	511 576	473 848
- in second to fifth year inclusive	2 490 513	2 306 031
- later than five years	3 226 638	3 726 638
	6 228 727	**6 506 517**

Certain of the municipality's property is held to generate rental income. Rental properties is expected to increase on 8% per year on an ongoing basis. Lease agreements are non-cancellable and have terms from 12 to 20 years. There are no contigent rents receivable.

41. Electricity distribution losses

Units purchased during the year	20 114 984
Units sold during the year	(14 584 619)
Difference	5 5303 364

42. Unauthorised expenditure

Unauthorised expenditure	3 383 316	-

43. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure - PAYE Penalties	-	547 493
Payment made for services not rendered	68 671	-
Enatis Fees	55 416	-
	-	-
	124 087	**547 493**